

National Trust
Registered Retirement Saving Plans
Annual Report 1975





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National Trust
Registered Retirement Saving Plans
Annual Report 1975



1968 1969 1970 1971 1972 1973 1974 1975

Registered Retirement Savings Plans
Growth in Assets under Administration

\$ 250 millions

As at October 31, 1975
National Trust Company, Limited
fiscal year-end

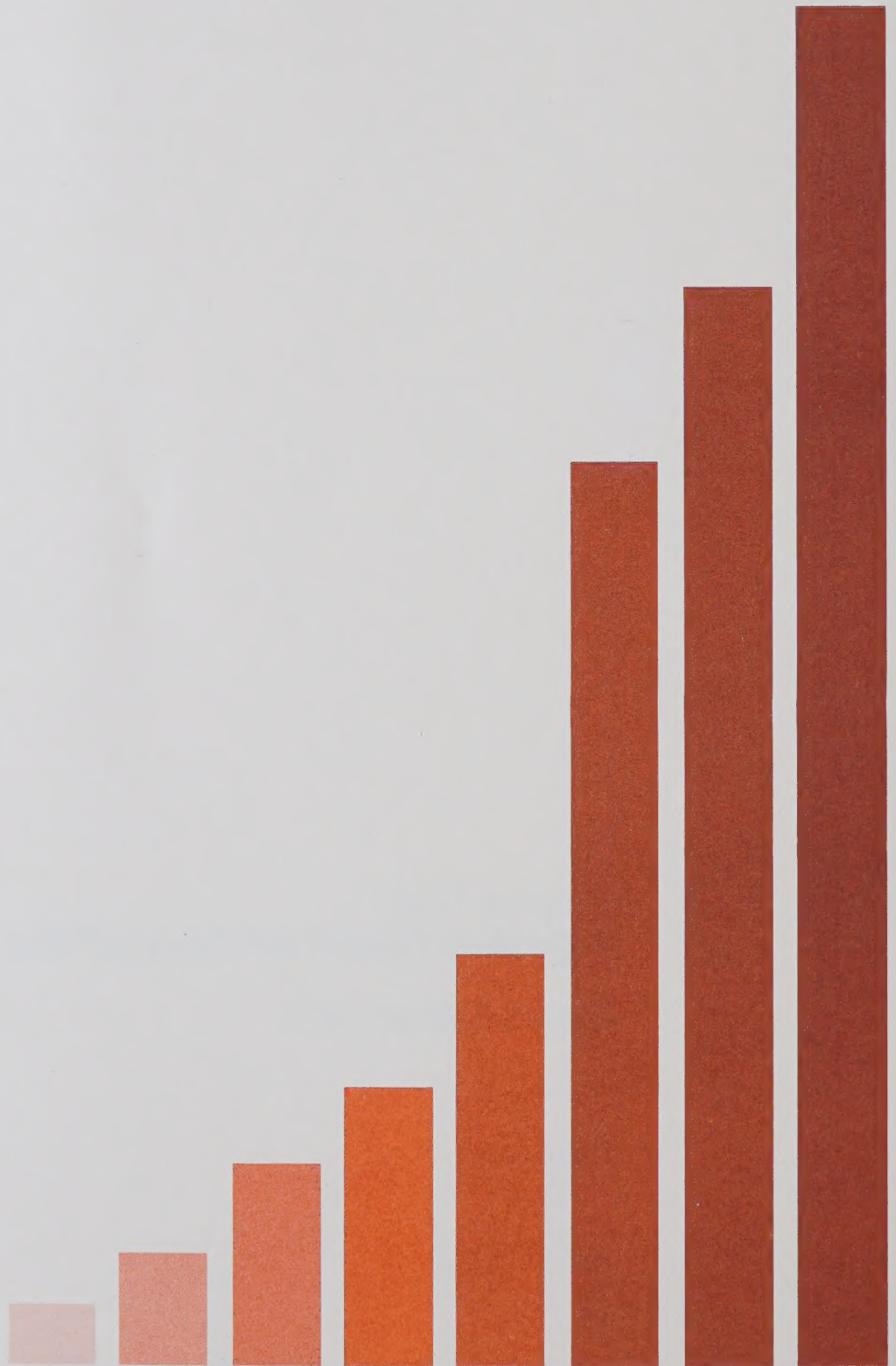
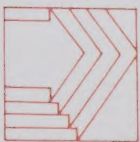
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Recent Developments

Registered Retirement Savings Plans continue to be extremely popular among Canadians. Statistical data available from the Department of National Revenue indicated that a total of 419,186 new Plans were registered in the 1974 taxation year, a 3% increase over 1973 which was a peak year. In addition, people are continuing to contribute substantial amounts to their existing Plans.

Reflecting these levels of growth, National Trust client assets invested in Registered Retirement Savings Plans rose to \$235 million in 1975, a 26% increase over last year. Due to the high interest rates that prevailed during 1975 and the relatively unfavourable climate for equities, the Guaranteed Fund experienced very strong growth while participation in the Equity Fund was marginally below last year's. The demand for the Self-Administered type of Plan was strong, and such Plans now account for approximately one-third of National Trust's Registered Retirement Savings Plan assets under administration.

Registered Retirement Savings Plan investors now have another avenue open to them in planning retirement income to minimize the impact of taxes. With the introduction of legislation permitting Spousal Retirement Savings Plans, the Federal Government now allows married Plan-holders to invest all or part of their eligible contributions in a Plan in the spouse's name. Such contributions may still be used to reduce the contributor's taxable income. A Spousal Retirement Plan holds the greatest advantage for married couples where the contributor's spouse expects a much lower marginal tax rate at the time his or her Plan is terminated. With certain exceptions, the limits on total eligible contributions to a Spousal Plan are basically the same as if the contributor were investing the money in his or her own Plan.

In the past year, several additional Provinces have passed legislation permitting the direct designation of beneficiaries to receive the assets of a Registered Retirement Savings Plan on the premature death of the Plan-holder, as an alternative to designation by Will. The chief advantage of such a direct designation is that the proceeds would pass directly from the trustee to the named beneficiary with no administrative delays, and be held free of the deceased's creditors. The only Provinces where such designations are still not permitted are Alberta, Manitoba and Quebec. For the other Provinces, beneficiary designation forms are available at the local National Trust office.



Managing your Tax-Sheltered Investments

Investment Planning for RRSP Investors

The decision to direct savings into either the Equity Fund or the Guaranteed Fund at any given time is determined by the individual investor's view of the economy and the current investment outlook. There are, however, certain general considerations which apply to all Registered Retirement Savings Plan investors, and these are based on the Plan-holder's retirement plans.

Large holdings of common stocks or Equity Fund units, for example, can produce very satisfactory rates of return at higher levels of risk. The investor should be in a position where he can take a long-term view of the fluctuations that equity investments can be exposed to in the stock market, and assure himself of a reasonable length of time during which he will be able to liquidate the assets at favourable prices. Such a strategy implies that there should be a good many years before the money is needed to provide additional income.

Where retirement is near, a more conservative stance would be appropriate. If there are only a few years before it would be necessary to terminate the plan, a more balanced investment approach or participation in the Guaranteed Fund minimizes the risk of capital loss. National Trust generally recommends that investors plan to liquidate all equity holdings and move into fixed-income investments well before termination of the Registered Retirement Savings Plan.

Other Tax-Shelter and Tax-Deferral Opportunities

A year ago the Federal Government introduced a new tax-shelter programme. The Registered Home Ownership Savings Plan is intended to assist Canadians in accumulating more rapidly the funds required to purchase a house in today's climate of escalating prices. Any Canadian resident aged 18 or over who does not own residential property is eligible, and a husband and wife can each have a Plan. Up to \$1,000 tax-free dollars can be put into the Plan each year, up to a maximum of \$10,000, and both deposits and the interest earned are tax-exempt while they remain in the Plan. If the proceeds are used by the Plan-holder to purchase his or her own home, they will never be taxed. The chief restriction is that an individual may have only one Plan in a lifetime, so a decision to terminate one should be considered carefully. Also, unlike for Registered Retirement Savings Plans, interest on money borrowed to contribute to a Home Ownership Savings Plan is not tax-deductible.

Another means of minimizing taxes on certain types of income is the Income Averaging Plan. The legislation governing this tax-deferral programme is designed to reduce the impact of income tax on a taxable lump sum by spreading it over a period of years. This Plan is of particular advantage to the investor who is approaching retirement and who, in addition to his Registered Retirement Savings Plan, owns securities with substantial unrealized capital gains. These could be severely taxed when the investments are liquidated to provide retirement income, and as the taxable portions of capital gains are among the types of income that qualify for an Income Averaging Plan, Retirement Savings Plan investors with other investments may find the programme very attractive.



The Year In Review

During 1975 capital markets in Canada were under severe strain as the general level of business activity declined, trade balances deteriorated and inflationary pressures gained momentum. Despite a year of recession and high levels of unemployment, Canadian costs and prices spiralled, and inflation proved to be much harder to control here than in most other industrialized countries.

Long-term interest rates reacted only moderately to recession, and throughout most of the year remained close to the record levels of 1974. The decline in short-term rates during the first quarter of 1975 was short-lived, and by late summer short-term rates had risen by about $1\frac{3}{4}$ percentage points above the March lows. With the increase in the Bank Rate in September from $8\frac{1}{4}\%$ to 9%, the general level of interest rates moved up sharply. By November, 3-month Treasury Bills had risen to 8.52% and 30-day Bankers Acceptances to 8.95%, from their January levels of 6.4% and 7.0%, respectively.

Equity prices made a strong recovery during the first half of 1975, and the Toronto Stock Exchange Industrial Index reached a high for the year in July registering a 6-month gain of 26%. Under the impact of continuing inflation and rising interest rates, stock prices in the final half of the year moved lower, and subsequent rallies did not penetrate the mid-year high.

Canada experienced a relatively mild but clearly defined recession which began in the second quarter of 1974 and ended in mid-1975. The modest 2% improvement in real Gross National Product in the second quarter was accompanied by strong inflationary pressures. Throughout the year wage settlements in Canada outpaced those in the United States, and unit costs rose considerably faster. The result was an adverse shift in terms of trade and a significant increase in Canada's foreign trade deficit.

Against a background of continuing cost-push inflation and a further decline in industrial production, attributable primarily to strikes in key industries, the Federal Government announced an anti-inflation programme on October 13. The future direction of the Canadian economy will be shaped by the Government's success in implementing its anti-inflation programme and resolving the complex structural problems that have developed. This will require more prudent fiscal policies combined with economic policies designed to increase productive capacity, improve productivity, and create new employment opportunities for a rapidly increasing labour force. The Governor of the Bank of Canada has stated that the excesses of recent years have created conditions where "established patterns of economic behaviour are distorted by all sorts of imbalances whose eventual reversal is bound to be disruptive and painful."

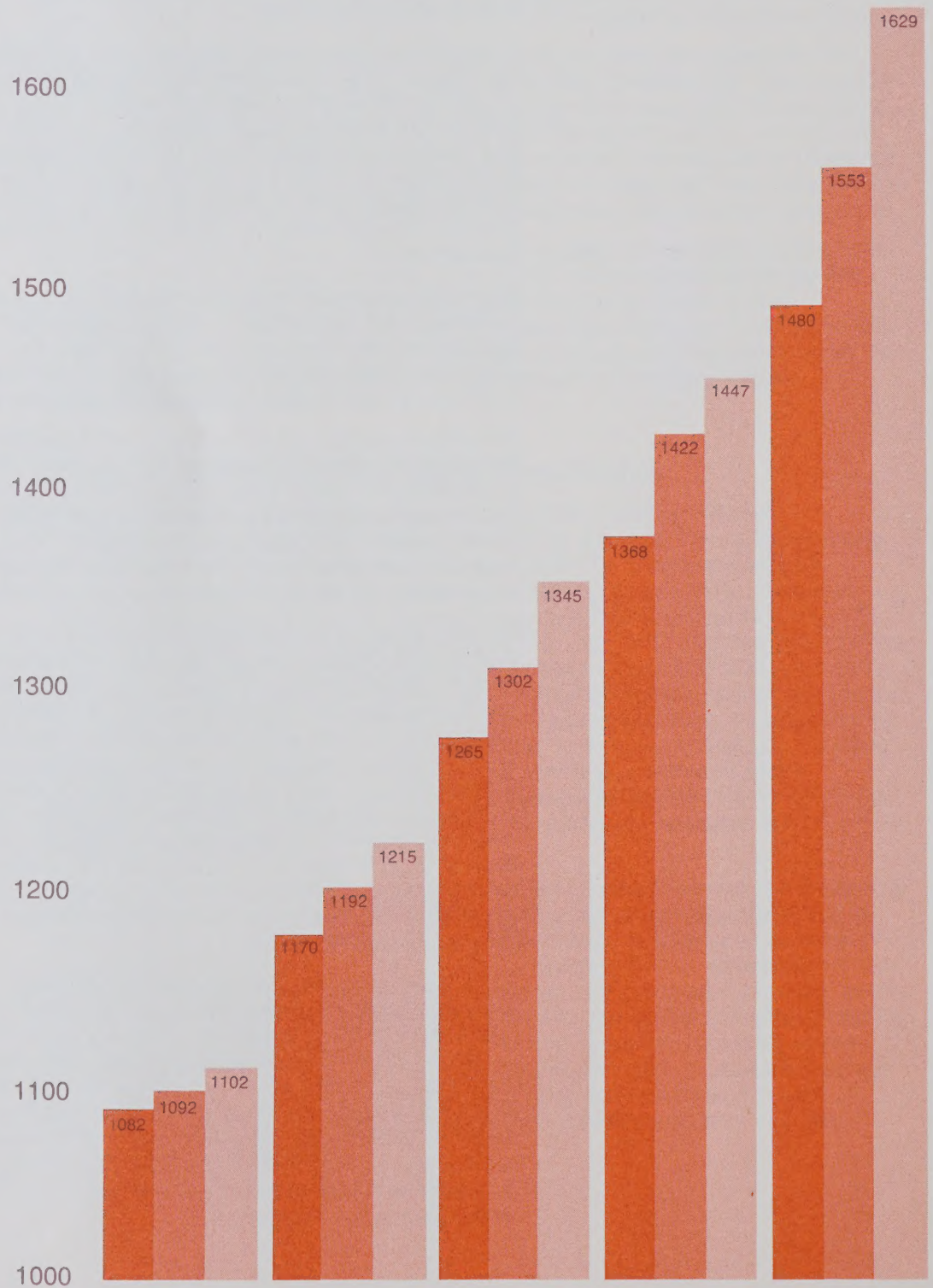
1976 must be viewed as a period in which the Canadian performance is brought closer into line with that of the United States and the principal overseas industrial countries. Overall growth in 1976 for the 24 member countries of the Organisation for Economic Co-operation and Development is estimated at between 4 and 5%. Over the longer term, as the problems of instability and low levels of growth are resolved, the impact of more buoyant external economies should improve the prospects for a stronger recovery in real growth. Canadian capital markets will show a clearer sense of direction only when the future patterns of inflation become apparent.



YEARS 1 2 3 4 5

The growth of \$1000
invested in the Guaranteed
Fund at selected interest rates
1973-74

\$1700 ■ 8.00%
 ■ 9.00%
 ■ 10.00%



The Guaranteed Fund

The purpose of the Guaranteed Fund is to provide investors with as high a level of income as is compatible with the protection of invested capital. The Fund grew rapidly during the year, increasing from \$98.1 million at the end of 1974 to \$135.9 million in 1975. This strong demand was due primarily to the attractive rates offered by the Fund relative to other qualifying investment vehicles.

The Guaranteed Fund provides a full guarantee of capital. The interest rate paid on the Fund at the time of investment is guaranteed for a five-year period, and interest is compounded semi-annually at this same rate. The high rate of return on the Fund is achieved through investment in as great a proportion of mortgages as is consistent with legal liquidity requirements. The graph shows the growth of \$1000 invested in the Fund at selected rates offered in the period 1973-75.

During 1975, Government monetary policy and a continuing rise in the general level of prices kept upward pressure on the interest rate structure. As a result, both long and short-term rates in the latter part of 1975 failed to sustain the anticipated cyclical decline. Mortgage rates followed the same pattern. After declining to a low of $10\frac{1}{2}$ -11% in March, they ended the year at $11\frac{3}{4}$ -12%, close to last year's peak. Reflecting these trends, the gross rate paid on the Guaranteed Fund declined to a low of $8\frac{3}{4}$ % in March and April. By September, the rate had risen to 10%, and reached a high of $10\frac{1}{4}$ % for the year in October.

It is difficult to assess the impact of the anti-inflation programme on mortgage rates in 1976. While we anticipate that the rate structure should not experience excessive upward pressure in the first half of the year, rates such as the mortgage rate are politically sensitive and the anti-inflation programme implies some ceiling beyond which they cannot move.



The Equity Fund

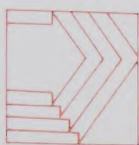
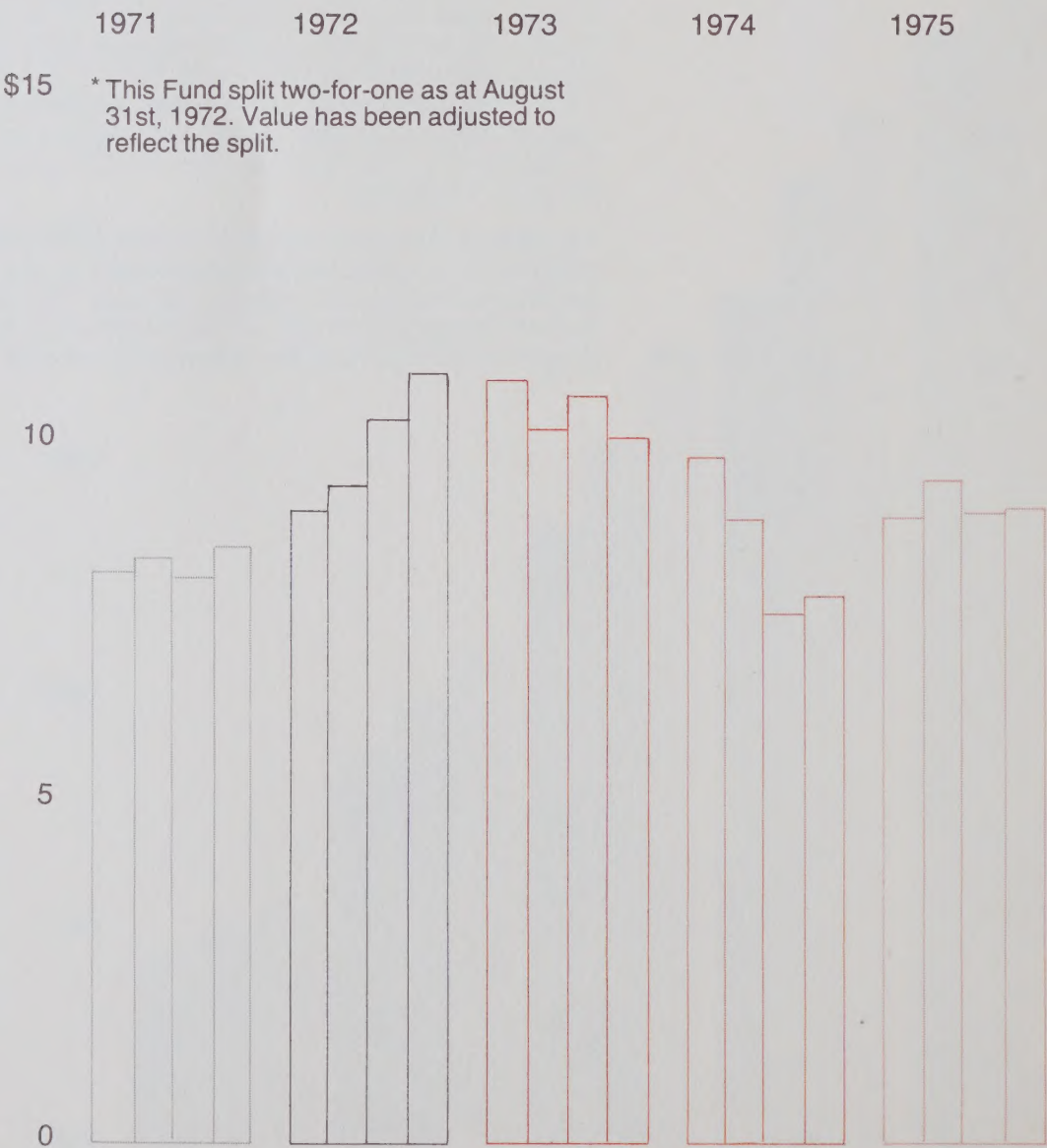
The Equity Fund is composed largely of common and preferred shares of strong, well-managed Canadian and American corporations which have been selected for their good record of performance and opportunities for growth. The foreign equity positions enable the Fund to participate in growth areas not available in the Canadian market. These include pharmaceuticals and business and office equipment, and represented 9.36% of the total portfolio at the end of 1975.

The Fund had assets of \$26,067,241 at December 31, 1975, of which 7.4% was invested in short-term notes, and the balance in shares and convertible debentures.

During the first half of 1975 stock markets in Canada rallied sharply from the lows of the final quarter of 1974. The Toronto Stock Exchange Industrial Index reached a high of 197.1 in July, which brought stock prices to levels where they were vulnerable to rising interest rates, low levels of business activity and persistent inflation. In the last half of the year the market lost its upward momentum and stock prices fluctuated in a fairly narrow range below the mid-year highs.

At the end of the year the Toronto Stock Exchange Industrial Index closed at 172.3, 9.9% above the 1974 close. The performance of the Equity Fund was stronger. The unit value of the Fund rose to a mid-year high of \$9.32 or 22.6% above the 1974 close, and ended the year at \$8.81 for an annual gain of 15.8%

Equity Fund For Retirement Savings Plans
Quarterly Value of Units*



The outlook for Canadian equity prices in 1976 depends to a large extent on the success of the anti-inflation programme in moderating inflation, and on interest rate trends. The prospect for a strong and sustainable upward movement in equity prices over the near term is tempered by high interest rates and by constraints on profit gains and dividend increases. As improvement in Canadian economic activity gains momentum during the year, there should be an accompanying strength in equity prices once inflationary pressures are brought under control. The Equity Fund should also benefit from the strength of the New York market. By the end of 1975 the United States had experienced a substantial reduction in the rate of inflation and interest rates had dropped sharply below the levels of 1974. With real growth in the U.S. economy estimated at 6-7% in 1976, the outlook for equity commitments is materially improved.



The Equity Fund

Portfolio of Investments

December 31, 1975

Common Shares 90.08%

	Number of Shares	Cost	Quoted Market Value
Banks and Finance 17.89%			
Canada Permanent Mortgage Corporation	8,000	\$ 144,320	\$ 131,000
Canadian Imperial Bank of Commerce	63,000	1,630,703	1,575,000
The Huron & Erie Mortgage Corporation	4,000	94,708	98,500
The Bank of Nova Scotia	20,000	736,648	812,500
The Royal Bank of Canada	58,000	1,667,891	1,732,750
The Royal Trust Company Class A	4,000	91,094	80,000
The Toronto-Dominion Bank	42,000	747,486	808,500
		<u>5,112,850</u>	<u>5,238,250</u>
Brewers and Distillers 7.28%			
The Molson Companies Ltd. Class A	20,000	443,981	385,000
The Seagram Company Ltd.	20,000	704,902	545,000
Hiram Walker-Gooderham & Worts Ltd. Class A	20,000	930,794	575,000
		<u>2,079,677</u>	<u>1,505,000</u>
Business Equipment 6.90%			
International Business Machines Corporation	4,000	1,022,109	911,710
Moore Corporation Ltd.	24,000	949,893	1,149,000
		<u>1,972,002</u>	<u>2,060,710</u>
Drugs and Cosmetics 3.44%			
American Home Products Corporation	8,000	286,698	271,379
Avon Products Inc.	2,000	211,370	70,894
Bristol Myers Co.	3,000	198,046	210,395
Merck & Co. Inc.	4,000	287,688	281,543
		<u>983,802</u>	<u>834,211</u>
Merchandising 5.43%			
Canadian Tire Corporation Ltd. Class A	23,000	825,025	1,058,000
Canadian Tire Corporation Ltd.	12,000	260,247	528,000
Simpsons Ltd.	60,000	467,647	420,000
		<u>1,552,919</u>	<u>2,006,000</u>
Mines and metals 7.03%			
Hudson Bay Mining & Smelting Co. Ltd. Class A	15,000	291,944	232,500
The International Nickel Co. of Canada Ltd. Class A	20,000	795,180	510,000
McIntyre Mines Ltd.	5,000	212,001	196,250
Noranda Mines Ltd. Class A	14,000	710,335	407,750
		<u>2,009,460</u>	<u>1,346,500</u>



	Number of Shares	Cost	Quoted Market Value
Oils 9.33%			
Canadian Superior Oil Ltd.	12,000	\$ 534,697	\$ 483,000
Home Oil Co. Ltd. Class A	11,000	491,505	297,000
Imperial Oil Ltd. Class A	20,500	613,396	466,375
Pacific Petroleums Ltd.	10,000	333,816	260,000
Shell Canada Ltd. Class A	19,000	304,609	277,875
Texaco Canada Ltd.	8,000	388,744	240,000
		<u>2,666,767</u>	<u>2,024,250</u>
Oil and Gas Pipelines 8.10%			
The Alberta Gas Trunk Line Co. Ltd. Class A	53,000	633,383	602,875
Hudson's Bay Oil & Gas Co. Ltd.	15,000	710,648	504,375
Interprovincial Pipe Line Ltd.	20,000	535,718	240,000
Norcen Energy Resources Ltd.	42,000	436,134	420,000
		<u>2,315,883</u>	<u>1,767,250</u>
Pulp, Paper and Lumber 2.17%			
Abitibi Paper Co. Ltd.	20,000	224,303	172,500
Domtar Ltd.	17,500	396,230	341,250
		<u>620,533</u>	<u>513,750</u>
Steel and Steel Products 1.67%			
Dominion Foundries and Steel Ltd. Class A	8,000	217,061	181,000
The Steel Company of Canada Ltd. Class A	10,000	260,262	263,750
		<u>477,323</u>	<u>444,750</u>
Transportation 2.64%			
Canadian Pacific Ltd.	45,000	<u>755,818</u>	<u>601,875</u>
Utilities 9.78%			
Bell Canada	26,000	1,158,179	1,118,000
Calgary Power Ltd.	15,000	370,173	421,875
Consumers' Gas Co.	55,000	867,898	653,125
Union Gas Ltd. Class A	34,000	399,054	250,750
		<u>2,795,304</u>	<u>2,443,750</u>



The Equity Fund

Portfolio of Investments (continued)

December 31, 1975

Common shares (continued)

	Number of Shares or Par Value	Cost	Quoted Market Value
Miscellaneous 8.42%			
Dominion Stores Ltd.	10,000	\$ 180,403	\$ 171,250
Eastman Kodak Co.	1,500	170,955	161,798
General Electric Co.	2,600	169,551	121,892
Philip Morris Inc.	3,000	158,536	161,608
The Procter & Gamble Co.	2,000	172,294	180,919
Selkirk Holdings Ltd. Class A	29,000	338,148	362,500
Southam Press Ltd. Class A	32,900	719,913	723,800
Steinbergs Ltd. Class A	6,000	138,441	107,250
Thomson Newspapers Ltd. Class A	33,500	357,934	443,875
		<u>2,406,175</u>	<u>2,434,892</u>
Total Common Shares		<u>25,748,513</u>	<u>23,221,188</u>

Preferred Shares 2.28%

John Labatt Ltd. \$1 conv.	8,400	218,350	145,950
TransCanada PipeLines \$2.65 conv.	10,000	434,098	361,250
		<u>652,448</u>	<u>507,200</u>
Total Preferred Shares		<u>652,448</u>	<u>507,200</u>

Convertible Debentures 0.87%

John Labatt Ltd. 9.50% due June 1, 1995	\$ 50,000	50,000	52,750
Moore Corporation Ltd. 6% due April 1, 1994	200,000	200,000	192,000
		<u>250,000</u>	<u>244,750</u>
Total Convertible Debentures		<u>250,000</u>	<u>244,750</u>

Total Shares and Convertible Debentures (93.23%)		<u>\$26,650,961</u>	<u>\$23,973,138</u>
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Short-Term Notes 6.77%

Province of Alberta Treasury Bills 8.65% due January 22, 1976	\$ 75,000	\$ 73,536
8.95% due February 12, 1976	400,000	391,832
9.05% due February 26, 1976	700,000	684,551
Province of Manitoba Treasury Bills 8.85% due January 21, 1976	200,000	195,682
9.20% due March 31, 1976	100,000	97,758
Province of Saskatchewan Treasury Bill 9.20% due February 25, 1976	500,000	490,240
		<u>\$1,933,599</u>



Balance Sheet

December 31, 1975
(with comparative figures at December 31, 1974)

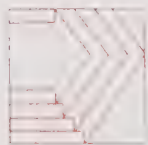
	1975	1974
Investments in securities:		
Shares and convertible debentures, at market value (cost — \$26,650,961; 1974 — \$25,008,234)	\$23,973,138	\$19,501,682
Short-term notes, at cost	1,933,599	2,196,878
	25,906,737	21,698,560
Accrued investment income	193,499	138,004
Cash (overdraft)	(32,536)	25,603
Net assets and participants' equity	\$26,067,700	\$21,862,167
Units outstanding	2,959,517	2,874,363
Unit value	\$8.808	\$7.606

Statement of Investment Income

For the year ended December 31, 1975
(with comparative figures for the year ended December 31, 1974)

Dividend and interest income	\$ 1,185,230	\$ 1,118,844
Management fee	200,241	184,463
Audit and other expenses	5,666	5,113
	205,907	189,576
Net investment income	\$ 979,323	\$ 929,268
Weighted average number of units outstanding for the year	2,985,800	2,874,359
Net investment income per unit	\$0.328	\$0.323

(See accompanying note)



The Equity Fund

Statement of Changes in Net Assets

For the year ended December 31, 1975
(with comparative figures for the year ended December 31, 1974)

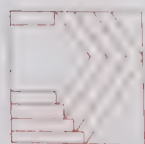
	1975	1974
Net investment income	\$ 979,323	\$ 929,268
Loss on sale of investments	(354,981)	(51,877)
Units issued (1975—407,037; 1974—685,351)	3,587,611	6,177,240
Units redeemed (1975—321,883; 1974—358,995)	(2,835,149)	(2,753,315)
Increase in net assets, at cost	1,376,804	4,301,316
Unrealized appreciation (depreciation) of investments during the year	2,828,729	(7,357,223)
Increase (decrease) in net assets	4,205,533	(3,055,907)
Net assets, beginning of year	21,862,167	24,918,074
Net assets, end of year	<u>\$26,067,700</u>	<u>\$21,862,167</u>
Increase in net assets, at cost:		
Purchase of shares and convertible debentures	\$ 4,084,196	\$ 5,028,747
Purchase of short-term notes	8,624,920	16,808,713
Cost of shares and convertible debentures sold	(2,441,469)	(874,604)
Redemption of short-term notes	(8,888,199)	(16,763,813)
Increase (decrease) in cash and accrued investment income	(2,644)	102,273
	<u>\$ 1,376,804</u>	<u>\$ 4,301,316</u>

Statement of Unit Values

For the year ended December 31, 1975

January 31	\$8.602
February 28	8.882
March 31	8.728
April 30	8.835
May 30	9.120
June 30	9.324
July 31	9.262
August 29	9.218
September 30	8.785
October 31	8.554
November 28	9.091
December 31	8.808

(See accompanying note)



Notes to Financial Statements

December 31, 1975

Summary of significant accounting policies

(a) Fund units are sold, and are redeemable on demand, as of valuation dates—the last business day of each month. Net asset values per unit are determined by dividing the carrying value of the Fund's net assets by the number of units outstanding.

(b) Carrying values of investments are determined as follows:

Shares and convertible debentures—at market value

Short-term notes—at cost, which approximates market value

(c) Investment income is accounted for by the accrual method. Dividend income is recorded on the ex-dividend date. Realized gains and losses on investments are computed with reference to the average cost of the investments. Purchases and sales are recorded on the trade date.

Auditors' Report

To the National Trust Company, Limited,
Trustee for the Participants of the
Equity Fund for Retirement Savings Plans:

We have examined the balance sheet of the Equity Fund for Retirement Savings Plans of National Trust Company, Limited (Trustee) as at December 31, 1975 and the statements of investment income, changes in net assets, and unit values for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Fund as at December 31, 1975 and the results of its operations and the changes in its net assets for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 20, 1976

Clarkson, Gordon & Co.
Chartered Accountants



Self-Administered Plans

Self-Administered Plans have become an important factor in the overall demand for Registered Retirement Savings Plans, and many clients are selecting the option of managing a portion of their own Plan investments.

There is a broad spectrum of investment vehicles which qualify as investments for a Self-Administered Plan. However, the regulations regarding the eligibility of specific investments are rigid, and it is important that the investor be fully aware of the legal status of his selections as the tax penalties for including ineligible investments are severe.

Stocks and bonds are common elements in the strategies of most investors, and the past two years have witnessed wide fluctuations in the returns on both. The investment climate for equities has been particularly unfavourable. The decline in stock prices began to accelerate in the second quarter of 1974, and continued for the rest of the year. As shown in the graph, the severe decline raised dividend yields to their highest level in five years. After a recovery in 1975, stock prices at the end of the year were still far short of the record levels reached in the fall of 1973. Fixed-income securities over the same period sold at historically high yields, and short-term deposits played an important role in the investment strategy of some investors during 1973 and 1974.

National Trust's Funds—the Equity Fund and the Guaranteed Fund—can form part of the investment programme for a Self-Administered Plan. Depending on the investor's strategy, they can provide a means of achieving additional diversification in the portfolio.

Legislation also permits the inclusion of certain kinds of insurance policies in the portfolio of a Self-Administered Plan—an opportunity of which few investors are aware. The main advantage of bringing an insurance policy under the umbrella of a Self-Administered Plan is that all the premiums, up to the prescribed contribution limits, are deductible, in contrast to insured RRSP plans where only a portion of the premiums is deductible. In order to qualify as an RRSP investment, the cash surrender value of the policy must, at some point prior to the Plan-holder's 71st birthday, be at least equal to the maximum proceeds payable under the policy when all the premiums have been paid. Holders of Self-Administered Plans who are interested in this feature should discuss the possibilities thoroughly with their insurance advisers, to ensure their policy will qualify under the legislation.

Selected Investment Yields
Quarterly Averages
Final Plot November
SOURCE: Bank of Canada Review

